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FM AMEMBASSY ASHGABAT
TO RUEHC/SECSTATE WASHDC PRIORITY 9568
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
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RUEHAK/AMEMBASSY ANKARA 2894
RUEHBJ/AMEMBASSY BEIJING 0715
RUEHKO/AMEMBASSY TOKYO 0591
RUEHIT/AMCONSUL ISTANBUL 1167
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEHNSC/NSC WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RHMFIUU/CDR USCENTCOM MACDILL AFB FL
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
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UNCLAS SECTION 01 OF 02 ASHGABAT 001129

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SUBJECT: LONGTIME TURKMENISTAN EXPERT REPORTS POSITIVE
STEPS TOWARDS ECONOMIC REFORM

REF: A. ASHGABAT 1106

- [1](#)B. ASHGABAT 1124
- [1](#)C. ASHGABAT 1056
- [1](#)D. ASHGABAT 1127

[1](#)1. (U) Sensitive but unclassified. Not for public Internet.

[1](#)2. (SBU) SUMMARY: EU-Tacis Turkmenistan Advisor Michael Wilson told econoff October 17 the Central Bank is cautiously considering a unified exchange rate, but the government fears the effect of shock therapy on the population. Wilson expects Turkmenistan to finalize an international arbitration law by the end of 2007, and ratify the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also known as the New York Convention) by March 2008. As the foundation document for international arbitration, this would be a serious step towards creating a stable, international-standard investment climate that potential foreign direct investors are looking for. END SUMMARY.

TURKMENISTAN: AVOIDING SHOCK THERAPY AT ALL COSTS

[1](#)3. (SBU) On October 17, EU-Tacis Advisor Michael Wilson told econoff the Central Bank is considering doing away with the dual exchange rate, but the government wants to approach the whole issue very cautiously. He said Central Bank officials repeatedly have said they would look at the dual exchange rate issue, and European Union High Representative for Common Foreign and Security Policy Javier Solana asked about the exchange rate mechanism during his October 9 visit in Ashgabat (Ref. A). However, the government is proud that Turkmenistan did not go through the economic shocks that other former Soviet republics did and is afraid of putting the population through that (Ref. B).

[1](#)4. (SBU) Referring to current economic conditions, Wilson said "pricing is out of control" and that "currently, there

is no mechanism for controlling the whole thing." In September, the government of Turkmenistan announced wage increases of 10-15% for government workers. The retail sector immediately increased prices (Ref. C), although, to date, the raises have not materialized. In Wilson's view, "the retail sector is making its own decisions."

POSITIVE STEPS TOWARDS REFORM PREDICTED

15. (SBU) Wilson mentioned projects and made predictions on steps that will be positive for the business climate. Currently, EU-Tacis is working on terms of reference with the Ministry of Justice and the State University Law Faculty for a legal reform project that will focus on trade and transit issues. In addition, he expects Turkmenistan will finalize an international arbitration law by the end of 2007, and will ratify the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also known as the New York Convention) by March 2008. As the foundation document for international arbitration, this would be a serious step towards creating a stable, international-standard investment climate that potential foreign direct investors are looking for.

16. (SBU) The government of Turkmenistan asked EU-Tacis to work with all of the donors, including USAID, on a five-year sustainable agriculture development program. A key element of this project will be subsidies, which the Ministry of Economy and Finance still strongly supports.

WHERE IS ALL THE MONEY GOING?

17. (SBU) Pointing to the creation of the Supreme Auditing Chamber, Wilson stated the Turkmenistan government wants to

ASHGABAT 00001129 002 OF 002

gain an "understanding of where money is going" and fight corruption. This echoes comments made on October 17 by the local Amcit Boeing representative (Ref. D).

18. (SBU) COMMENT: If Wilson's prediction about ratification of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards by March 2008 turns out to be true, this would be a strong signal that Turkmenistan welcomes foreign direct investment. Understanding Turkmenistan's concerns about reform, such as fears about shock therapy and concerns over allocating financial resources properly, will enable those who want to move the country in the right economic direction to target the message. END COMMENT.
HOAGLAND